

USAID/Nepal

Annual Report

FY 2004

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Nepal

Performance:

Background: In the last 53 years, Nepal has made a remarkable transition from an isolated kingdom with limited basic services and infrastructure to a functioning constitutional monarchy. Progress has been notable - large decreases in child mortality and fertility rates, functioning ministries such as education, finance, and health, gains in literacy and increased access to basic services. Nonetheless, Nepal remains one of the poorest countries in the world, with an annual per capita income of \$250 and 42% of the population living below the national poverty line. While 80% of the rural population depends on agriculture for their livelihood, population growth has fragmented land holdings and depleted forest products. Life expectancy at birth has increased, but, at 59 years, it is still lower than its neighboring South Asian countries. Maternal mortality is amongst the highest in the region. One of eleven children dies before they reach their fifth birthday - the vast majority during their first year. Moreover, Nepal is in the midst of a concentrated HIV epidemic: the World Health Organization/UNAIDS estimate that 14 Nepalese adults become infected with HIV in Nepal every day. While Nepal's human development indicators are low by any standard, they are particularly low for the very poor, and include wide disparities by region, gender and ethnic group. Economic growth has occurred almost exclusively in urban areas, while the rural economy has been virtually stagnant, particularly in the hill and mountainous regions. Life expectancy in Kathmandu is over 70 years, whereas it is under 42 years in the far-western mountains. The literacy rate is 54% nationwide, but only 26% for women.

In FY 2003, with the support of the donor community, the Government of Nepal (GON) has taken decisive actions, demonstrating an increased commitment to improve governance. Key, long-awaited reforms are being implemented, focusing on increasing accountability while reducing waste and abuse (i.e. anticorruption efforts, fiscal transparency, budget reforms). The GON has committed to budget increases in historically neglected mid-western and far-western regions. It has also responded to concerns about human rights abuses by establishing human rights cells within the Royal Nepalese Army (RNA), the civil police, and the Armed Police Force. These efforts are commendable and should be supported, but much remains to be done. The conflict has interfered with decentralization initiatives to transfer authority, funds, and responsibility from central control to Nepal's 75 districts. Further, the GON is still functioning without elected officials at any level and without a Parliament. GON capacity (both central and local) is weak, as is that of local communities, where substantial efforts are required to help individuals acquire the tools needed to improve their economic and social conditions.

U.S. Interests and Goals: The U.S. has an interest in an economically and politically stable multi-party democracy in Nepal. Nepal serves as a buffer between the world's two most populous nations in a volatile region. By supporting efforts to resolve the Maoist insurgency and addressing the underlying causes of poverty, inequality, and poor governance in Nepal, the U.S. is making an important contribution to fighting terrorism, promoting regional stability, and diminishing the likelihood of a humanitarian crisis. These goals support and reinforce each other and are present in each of the strategic objectives (SOs) and the special objective (SpO).

Donor Relations: Donor coordination in Nepal is good. The GON budget report shows that donors provided roughly \$106 million in grants and \$113 million in loans directly to the GON from June 2002 to June 2003 (the Nepali fiscal year). In addition, donors contribute approximately \$230 - \$280 million to Nepal's development outside of the GON budget. The United States is the second largest bilateral donor, after Japan, in terms of funds disbursed. Other major bilateral donors and their principal areas of focus include Denmark (education, decentralization, governance and environment), the United Kingdom (governance, rural development, health and HIV/AIDS), Germany (rural and urban development and health), Switzerland (rural development and technical training), Norway (hydropower, water, governance

and human rights), Netherlands (community development), Finland (environment and rural water) and Canada (civil society, environment and gender). The major multilateral donors include the United Nations Development Program (local planning and governance, urban infrastructure, rural energy and HIV/AIDS), the Asian Development Bank (governance, education, water, power, agriculture and roads), the World Bank (education, roads, water, power, telecommunications, financial sector reform and health sector reform), the European Union (urban development and education), and the United Nations World Food Program (food for work programs). Other multilateral agencies such as UNICEF, UNFPA, UNAIDS and ILO are also active in Nepal. Multi-donor partnerships have contributed to closer donor coordination, particularly in the areas of conflict mitigation, health and HIV (with USAID in a leading role), local governance strengthening, rural infrastructure, basic education, and eco-tourism. Coordination between USAID and the United Kingdom's Department for International Development (DFID) has been exceptional, to the point where the British contributed \$774,000 to USAID's Special Objective's program to promote peace through improved incomes and governance. DFID and USAID also work closely in the health sector to address the immediate health needs of Nepalese families in conflict affected areas. USAID and the Japan International Cooperation Agency have a Memorandum of Understanding to collaborate closely on Maternal and Child Health and HIV/AIDS activities. USAID also funds a rural roads program initiated in collaboration with the European Union.

Challenges: The most pressing problem facing Nepal today is the profound impact of a rebel insurgency on its political and economic development and security. The Maoist insurgency, which began in 1996, found fertile ground largely in response to Nepal's poor governance, poverty and exclusion. The initial pro-people approach, which won the Maoists converts among the disenfranchised of Nepal, has degraded into a campaign of violence, lawlessness, intimidation, and destruction. More than 8,000 people have been killed by the Maoists and Security Forces, with the bulk of these deaths (almost 6,000), occurring since 2001. In addition to the human toll, the conflict has severely disrupted the fragile national economy. The U.S. Embassy estimates losses to national property and the economy at \$1.5 billion.

In late January 2003, the Maoists and the GON announced a cease-fire and agreed to hold peace talks. A seven-month period of minimal violence and much-needed economic recovery subsequently prevailed. This contributed to the 2.4% increase in the GDP growth rate over the past fiscal year. In August 2003, however, the Maoists withdrew from peace talks protesting the GON's lack of commitment to constituent assembly elections. Since then, the Maoists have expanded their activities in eastern Nepal and the Terai (the fertile flatlands on the Nepal-India border), robbed banks, increased extortion of food and money from both locals and tourists and continued to destroy infrastructure. Government presence is increasingly limited to district headquarters, resulting in decreases in basic government service delivery (health, education, agriculture extension). Human rights abuses committed by both parties to the conflict are rampant. The violence continues to affect the lives of ordinary citizens and threatens to erode development gains of past decades, e.g., increased literacy and child survival, decreased fertility, improved agricultural production, and democratic governance.

Maoist threats have yet to translate into significant and tangible action against U.S. interests or U.S. programs. However, the rapidly evolving security situation is monitored continuously and, when necessary, programs are adjusted to minimize risk to U.S. Mission staff and partners. To ensure successful implementation of its programs, the Mission has established a policy resource unit that analyzes relevant information to assess the security and political situation, target resources and evaluate the need for a humanitarian response. The Mission also collaborates with other donors across sectors to share information and develop unified approaches to common implementation challenges.

USAID Programs: The increasingly uncertain political, development, and security context presents a multifaceted development challenge. USAID's programs are designed to address Nepal's development needs in key areas. The health strategy focuses on expanding access to and use of health and family planning services, and preventing the further transmission of HIV/AIDS. Agriculture and natural resource activities have increased agricultural income and employment by supporting expanded production and processing of high value crops. Policy level support to promote private sector investment in development of hydropower is geared toward harnessing one of Nepal's largest natural assets and expanding rural access to electricity. USAID supports strengthening governance and democratic processes through

building advocacy capacity of community organizations, increasing transparency of local and national budgets, increasing women's political participation, and increasing the management capacities of forest and water users' groups. In response to the worsening conflict, sector programs have been refocused to address the underlying causes and impact of Nepal's Maoist insurgency and a special objective is underway to relieve human suffering, re-build basic infrastructure, and promote peace/conflict mitigation.

Key Achievements: USAID made significant progress in FY 2003 despite the ongoing conflict and political instability. **Income Generation in Rural Areas:** In the previous phase (1997-2002), USAID helped address issues of poverty, inequity and social exclusion by focusing on community and micro-based enterprises. Building on the lessons learned and the positive results of the earlier phase of the program, USAID aims to make more productive use of available local resources and increase market access for sales of high-value commodities. This, in turn, will increase household income and food security, stem the tide of out-migration and provide opportunities for poor farmers to improve their lives. Between 40,000 to 50,000 rural poor households with 250,000 people are targeted to benefit from this program directly, primarily small farmers (including women, disadvantaged groups and the very poor), traders and entrepreneurs. At the national level, USAID will provide technical expertise and analyses of agriculture trade-related issues, e.g., critical issues such as Nepal's accession to the World Trade Organization, trade treaties with India, and quarantine and customs bottlenecks. In addition to the above, two Global Development Alliances were started in September, 2002 that aim to deepen and widen income-generating impacts in rural areas. The two-year Nepal Tree Crop Alliance focuses on public-private partnerships in marketing coffee and tea for export and the three-year Certification and Sustainable Marketing of Non-Timber Forest Products project certifies components of health and cosmetic products.

Health: The ultimate beneficiaries of this program are 11 million men and women of reproductive age and 3.5 million children under the age of five years. Despite the conflict and political instability, the program met or exceeded all FY 2003 annual performance targets. Couple years of protection increased by 7% in target areas. The vitamin A supplementation program was implemented in all of Nepal's 75 districts reaching 98% of all eligible children, and the community-based treatment of child pneumonia program was expanded from 16 districts to 22 districts. These two life-saving community level interventions combined avert 45,000 child deaths every year.

The HIV/AIDS program expanded its prevention-to-care activities to a greater number of beneficiaries and a very successful behavior change intervention served to increase condom use among the most-at-risk populations. The HIV sero-prevalence rate among female sex workers, a target high-risk group, has been reduced from 3.9% in 1999 to 3% in 2003 and the active syphilis rate, a significant correlate of the risk for HIV transmission, was reduced from 18.8% in 1999 to 9.5% in 2003.

Hydropower: This program builds upon USAID's earlier efforts, to improve the overall policy, legal and regulatory framework for private sector investments in hydropower and to strengthen institutional capacity to respond to investor demands. Despite political problems and the economic slowdown, the private sector's interest and participation in hydropower development continued to increase. Six major investments in hydropower have been made and several small projects are in process. Of these six investments, the three made in FY 2003 totaled \$12 million and raised the cumulative total private sector investments reported from \$348 million in FY 2002 to \$360 million in FY 2003.

Advocacy, Political Participation, Good Governance and Rule of Law: USAID has made encouraging progress in achieving targeted results by strengthening the advocacy capacity of selected civil society groups, increasing women's participation and natural resources governance, improving the performance of selected institutions, and laying the groundwork for USAID's new Rule of Law program. USAID continues to expand and extend its program to increase women's political participation. Under this program approximately 7,000 community-level women have gained campaigning and leadership skills, creating a coalition of women leaders and advocates. In forestry and buffer zone management, 7,982 hectares of forest are under active management of community forestry users groups, surpassing the target of 6,193 hectares. Fees collected by irrigation water users amounted to \$13,800, slightly exceeding the target. This money will be used to operate and maintain irrigation systems handed over by the GON to the local irrigation water user groups. USAID also made significant progress to prevent the

trafficking of women and girls. Specifically, it worked with the GON to develop and promulgate policies to protect economic migrants, increased awareness activities and re-vitalized seven district-level anti-trafficking task forces including 77 municipality and village level task forces. USAID also continues to strengthen governance capacity of selected institutions that are considered critical for consolidating democracy in Nepal. In March 2003, a voter education program (initiated in July 2000) was completed. USAID also assisted the Election Commission in decentralizing the capacity and effectiveness of district level election offices in 30 districts. To help the Ministry of Finance with effective monitoring efforts and informed decision-making, USAID supported the Office of the Financial Comptroller General in conducting an Expenditure Tracking Survey in the education sector.

Conflict: This Special Objective, designed to respond to Nepal's on-going Maoist insurgency, focuses on alleviating the suffering of Nepal's conflict-affected rural areas and strengthening national and local capacity for peace building. In FY2003, three major activities were initiated and the program met or exceeded most of its year-one targets. Construction of a rural road began in Western Nepal using local labor. This work has already generated 216,343 person days of employment, exceeding the annual target by nearly 8.2%. Women comprise approximately 16% of the work force. In FY 2003, USAID also provided support services to victims of the conflict. The annual target of 1,130 victims using key support services was exceeded by over 100%. In addition, fact-finding teams, composed of a doctor, a lawyer and a journalist documented incidents of gang rape, and torture of political party workers and street children. In addition, a baseline survey was completed to determine the types and volumes of mediation cases expected, the first drafts of training manuals and guidelines/directives were delivered, and training of master trainers (who now serve as the foundation to establish a national core group prepared to promote enhanced access to justice) was completed for the alternate dispute resolution program.

Environment: A public-private alliance, the Kathmandu Electric Vehicle Alliance has been formed by government, non-government, and private partners to improve the air quality in Kathmandu. The alliance will work to eliminate constraints to the expansion of the electric-based mass transit and to promote the spread of electric vehicle operational systems and technologies. USAID's Regional Program of the Office of Economic Growth/USAID/India is assisting the city of Kathmandu to improve procedures for waste management, with a particular focus on the safe disposal of medical waste.

Title II Resources: The Mission did not use PL 480 Title II resources in FY 2003 and does not request them for FY 2004.

Gender: USAID/Nepal was the first Mission to elevate women's empowerment to the strategic objective level and has remained at the cutting edge in highlighting women's needs, perspectives, and concerns. Ongoing programs address gender issues through activities that broaden and strengthen women and disadvantaged groups' participation in political processes, natural resource management, hydropower development, family planning, anti-trafficking, and high-value agriculture and market access initiatives. In FY 2003, efforts were also made to collect and disaggregate more meaningful measures of gender equality, in order to examine disparities and their implications. USAID has ensured that gender integration remains a cross-cutting strategic priority through a new Mission policy that establishes the organizational framework to mainstream gender equality into all new programs and activities. In addition, USAID chairs the Gender and Development Donor Group that coordinates gender related programs among the participating donors.

Trade Capacity Building: The GON has placed a high priority on increased regional and global trade. The Mission supports Nepalese efforts to expand market access through two Global Development Alliances for Tree Crops and Non-timber Forest Products and technical support for agriculture-related trade policy and negotiations. Prior to Nepal's accession to the World Trade Organization, USAID coordinated with the State Department and the United States Customs Service to assess constraints and barriers to accession, particularly regarding customs valuation. Funding and political will permitting, USAID may become more active in assisting Nepal to meet the obligations and reap the benefits of its recent accession to the World Trade Organization.

Country Close and Graduation:

Not applicable

Results Framework

367-001 Increased Sustainable Production and Sales of Forest and High-Value Agricultural Products

SO Level Indicator(s):

Annual sales of high-value agricultural, livestock and forestry commodity sales in target areas (proposed)

- 1 Expanded Market Participation

367-002 Reduced Fertility and Protected Health of Nepalese Families

SO Level Indicator(s):

Female sex worker sero-prevalence

Total fertility rate

Under-five mortality rate

- 1 Increased Use of Quality Family Planning Services
- 2 Increased Use of Selected Maternal and Child Health Services
- 3 Increased use of HIV/AIDS Prevention and Care Services by the Most-at-Risk Groups
- 4 Strengthened HMG Capacity and Pilot Community Programs to Control Selected Infectious Diseases

367-003 Increased Women's Empowerment

367-004 Increased Private Sector Participation and Investment in Environmentally and Socially Sound Hydropower

367-005 Other Activities in Support of Agency Objectives

367-006 Increased Private Sector Participation in Environmentally and Socially Sustainable Hydropower Development

SO Level Indicator(s):

Private financial commitments for hydropower projects

- 1 Improved Enabling Environment for Equitable and Sustainable Hydropower Development
- 2 Strengthened Environmental and Social Assessment Procedures, with Broadened Stakeholder Participation

367-007 Strengthened Governance of Natural Resources and Selected Institutions

SO Level Indicator(s):

Number of women in leadership positions in target civil society groups and institutions

Public perception of levels of representation participation and accountability in selected institution and civil society groups

Transparency of financial information of target civil society groups and institutions

- 1 Increased Management Capacities of Natural Resource Management User Groups
- 2 Increased Advocacy Capacity of Selected Civil Society Groups at Community and Federation Levels
- 3 Increased Women's Participation
- 4 Improved Performance of Selected Institutions

367-008 Promoting Peace Through Improved Governance and Incomes in Targeted Areas

SO Level Indicator(s):

Perception of civil society organizations and community based organizations that the HMG peace planning/implementation includes their input

Person-days of paid employment

- 1 Improved Infrastructure and Expanded Economic Opportunities in Conflict-Affected Areas
- 2 Increased Use of Key Support Services by Victims of Conflict
- 3 Increased National Capacity to Engage Effectively in Transition to Peace Process
- 4 Strengthened Community Capacity for Peace